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ABSTRACT

Key trends in higher education in the 1970s are summarized, and the current condition of higher education in terms of its human, physical, and financial resources is reviewed. Attention is directed to progress to broaden access to higher education, to preserve quality programs and services, and to maintain fiscal health. Data are presented to indicate that higher education is a major U.S. industry. Much of the growth in higher education during the 1970s resulted from serving previously underserved citizens. To balance their budgets, higher education institutions have had to focus on controlling costs internally through short-run economies, holding down faculty salaries, deferring maintenance of buildings and equipment, and postponing needed equipment purchases. It is suggested that the Education Amendments of 1980 provide the potential over the next five years for sustaining the national commitment to equal educational opportunity by authorizing increases in the maximum federal student aid awards to compensate for inflation, but appropriations must be increased accordingly to realize this potential. Endowment income has lost significant ground to inflation, and though overall voluntary support has increased substantially, it has failed to keep pace with expanded enrollments and inflation-induced cost increases. It is concluded that higher education institutions have begun to experience a depletion of their human, physical, and financial resources. (SW)

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Higher Education is A Major U.S. Industry

Higher education is a major industry. In 1980-81, it served over 12 million individuals in part-time and full-time academic programs on over 3,000 college and university campuses. Through off-campus extension, noncredit continuing education, and community service programs, higher education reaches another 20 million people. Universities and colleges perform more than 50 percent of the basic research and 15 percent of the applied research conducted in the United States.

Colleges and universities employ nearly 1.9 million people; 793,000 faculty, 280,000 managerial personnel, and 791,000 nonprofessional staff. Higher education employs one-quarter of the nation's scientists and engineers.

Higher education makes dollar outlays for current operations of approximately $50 billion annually. This is equivalent to agriculture's contribution to the gross national product and is equal to that of the communications industry, the auto industry or the petroleum-processing industry. In many communities, higher education is the largest single employer and the biggest consumer of local goods and services.

Access to Previously Underserved Citizens Has Expanded Significantly

Though on-campus enrollment growth slowed in the 1970s as compared with the previous decade, it was up 40 percent, from 8.6 million students to 12.0 million. Enrollments were up in every sector: public and independent universities, four-year colleges, two-year colleges, liberal arts colleges, black colleges, and church-related colleges.

Much of the growth in higher education during the 1970s resulted from serving previously underserved citizens. Significant progress in broadened access was achieved with most of the increase in enrollments accounted for by minority students, women students, and older students.

In the coming decade, there will be a decline of close to 4.4 million or 15 percent of the traditional college-age population. The expected impact of this decline on higher education and the potential for offsetting at least a part of the enrollment decline by serving new clientele will vary substantially by region of the country and by type of institution.

Higher Education Holds Public Confidence

Higher education has sought to maintain quality without pricing itself out of reach of its consumers. Objective standards of quality are few—and, too often, ambiguous. Data indicating growth in faculty experience may signal better teaching to some, but hardening of the academic arteries to others. Higher faculty-student ratios may indicate greater faculty productivity or—from the student standpoint—undesirable growth in average class size.

"The higher education industry is working at near full capacity."

Other measures of quality, while encouraging, are limited and subjective. A recent survey of those most closely involved with the enterprise disclosed perceptions that overall quality of the learning environment was improving, faculty performance was better, academic standards were increasing, assessment of student performance was more rigorous, and teaching innovations were on the rise. (Those surveyed included senior academic officers, both junior and senior faculty, student body presidents, and student editors.)

With regard to public confidence, higher education has not fared as poorly as most other major social institutions. While a Harris survey (1978) showed that not one of America's social institutions enjoyed the confidence of a majority of the public, higher education ranked relatively high: just below the medical establishment, and well above federal, state, and local governments.

Certainly, growth in enrollments throughout the decade has been not only the result of demographic trends but a reflection of collective confidence in the value of a college education. The enrollment growth among adults beyond the traditional college-going age, in particular, suggests an appreciation of higher education's value on the part of more demanding and discerning citizens.

Finally, continued voluntary support indicates confidence in higher education among alumni, other individuals, foundations and—increasingly—private corporations.

Higher Education Works at High Utilization Rate

The higher education industry is working at near full capacity. Considering the total number students that could be served with the existing faculty, facilities, and academic caldendar, the apparent utilization rate of independent institutions is about 94 percent, and of public institutions about 91 percent—much higher than the 78 percent now found in industry. In a 1980 survey of chief academic officers and senior faculty, over a quarter of the respondents reported an increase in faculty workload in terms of numbers of students taught, hours devoted to student advising and committee work.

Rising Costs Threaten Quality

Externally generated costs which the institutions themselves cannot control, such as energy, other essential goods and services, social security taxes, and compliance with government regulation, have been skyrocketing. To balance their budgets, institutions have had to focus on controlling costs internally through short-run economies: holding down faculty salaries, deferring maintenance of buildings and equipment, and postponing needed equipment purchases. These recent institutional practices have enabled colleges and universities to balance their current fund budgets but carry significant longer-run risks.

Higher education, while not a high wage industry, is labor intensive. Insti-

"To balance their budgets, institutions have had to focus on controlling costs internally through short-run economies: holding down faculty salaries, deferring maintenance of buildings and equipment, and postponing needed equipment purchases."

tutional costs would be far higher if faculty salaries had been keeping pace with inflation. In the past two years of double-digit inflation, faculty base salaries have declined in buying power by 13 percent.

Faculty salaries have lost significantly more ground to inflation than those of other professionals in government and industry.

Other economy measures also threaten teaching quality. Postponed sabbaticals, cutbacks in travel budgets, library acquisitions, and subscriptions to professional journals may inhibit professional development. Postponement of new equipment purchases not only compels faculty and students to work with increasingly obsolete hardware, but prevents institutions from fully utilizing advances in technology.

Colleges and universities are major energy users. The rising costs of energy—which have quadrupled since the OPEC embargo in 1973—have greatly intensified financial pressures on higher education institutions. On many campuses increased costs of energy have been absorbed by the expedient of cutting or deferring other costs of operation and maintenance.

Residential colleges with extensive campus facilities to heat and cool, particularly in areas with extreme weather conditions, have had to be especially resourceful. Nevertheless, energy price increases have been so steep that colleges report they have reduced consumption substantially and still seen their energy costs more than double.

Decades of building educational facilities designed in an era of low U.S. energy costs cannot be corrected by merely reducing consumption. In many cases, modifications of buildings and heating and cooling systems are needed. These require capital investment, and few institutions have sufficient reserves to undertake major capital investments even for greater energy conservation.

Sharp boosts in social security taxes increase the cost of operation for all sectors of the national economy. In the for-profit sector, many companies can pass such costs along to consumers in higher prices. At the same time, as business expenses, they reduce the companyies' taxable income. Tax-exempt colleges and universities are likelier to bear the full costs of higher social security taxes. Their ability to pass along these and other costs to student consumers is limited.

The number of college and university administrators has been increasing at a more rapid rate than college faculty. A recent study found that between 1977-78 and 1979-80 the number of administrators in public colleges increased by seven percent while enrollments increased by five percent and the number of faculty declined by one percent. The most prevalent reasons for hiring new administrators at both public and independent institutions has been to meet increasing accountability demands for federal and state funds, and to comply with requirements for affirmative action, civil rights, and other societal objectives. Recently, numerous reports

"Institutions do not depreciate their assets: their replacement reserves, based on historical costs rather than market costs, are grossly inadequate for maintaining the physical facilities and replacing equipment at current prices."

and studies have criticized structural flaws in the regulatory process: excessive complexity, lack of coordination among government agencies and overlapping reporting requirements. At colleges and universities these may result in unnecessary compliance costs, and divert resources from basic academic purposes.

Thoughtful leaders in higher education are also concerned that excessive government regulation may impose undesirable degrees of conformity on historically diverse colleges and universities.

Higher education institutions as nonprofit entities do not typically include the cost of capital used in providing educational services in their cost accounting systems. Educational cost figures reflect only current operating costs. Institutions do not depreciate their assets: their replacement reserves, based on historical costs rather than market costs, are grossly inadequate for maintaining the physical facilities and replacing equipment at current prices.

Real Costs to Students Have Been Held Down

The proportion of the costs of an education paid by students and their families has not increased substantially during the 1970s. Paying these costs has become more difficult as the proportion of family income that must be devoted to necessities has increased, leaving families with less discretionary income. Students' educational costs have been partially offset through state appropriations for public higher education, through federal and state student aid programs, and, primarily at independent institutions, through institutionally funded student aid including donated scholarship funds.

Financial Aid to Needy Students

In 1972, Congress enacted an expanded program of financial support for needy students with grants, work-study and loans to remove financial barriers to college access. This program was extended in 1976 and, in 1978, the financial crunch on many middle income families was reduced by the Middle Income Student Assistance Act, which made them eligible for grants and subsidized loans.

Under these programs, federal aid to students grew from $1.2 billion in 1972 to $5.3 billion in 1980. Currently, one of every three undergraduate students attending college meets federal government's definition of financial need and receives federal aid in the form of grants, loans, work-study or a combination of these sources. In addition to state appropriations to support low tuition at public institutions, states granted $912 million to students in both public and independent institutions in 1980-81. Historically, the growth in higher education has been promoted by low tuition at public institutions.

Though federal and state student aid programs grew, greater access to college was also financed in part by the colleges

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themselves. As of 1976, aid provided to students from the colleges' own resources in the form of grants, loans and tuition discounts, had grown to $1.4 billion annually. This support was in addition to private gift and grant funds specifically designated for student aid at the institution and to federal and state sources of student aid.

Most of this institutionally funded aid to assure access for needy students has come from the general funds raised primarily from increased tuitions. These tuition increases in the private sector function as a tax on current unaided students to supplement federal, state, and other private student aid funds, that have not kept pace with expanded enrollments, increased eligibility for aid, and soaring per-student operating costs. If student aid from federal and state sources does not continue at present or proposed rates, the situation for independent colleges could become critical as institutional funds are increasingly diverted from academic programs to the support of students. This tends to widen the gap between public and private tuition.

The Education Amendments of 1980 provide the potential over the next five years for sustaining the national commitment to equal educational opportunity by authorizing increases in the maximum federal student aid awards to compensate for inflation, but appropriations must be increased accordingly to realize this potential.

It should be noted that federal student aid in particular is intended to help cover over-all college attendance costs: not only tuition and books, but room and board (which may be off campus), and other living expenses. Thus only a portion of the aid which most students receive is paid as tuition for educational services provided by the institution.

The 1980 Act also authorizes funds for college and research libraries, developing institutions, and a new program for urban institutions, renovation of research facilities, construction to meet unusual increases in enrollment, use of alternative energy resources, and other institutional needs.

Endowment Income, The Stock Market and Inflation

A steep decline in stock market prices early in the decade caused the market value of educational endowment funds to fall from $16.2 billion in 1972 to $11.4 billion in 1974. By 1979, endowments counting both market price gains and new additions of principal had reached $18.3 billion. Although this appears to be an increase, the real value of endowments has been eroded by the declining value of the dollar.

Endowment income has lost significant grount to inflation, and covers a declining share of current institutional expenses, shrinking in the private sector to less than eight percent. At the same time, institutions are having to pay out a larger share of endowment income to meet current expenses rather than reinvesting it to maintain the income generating base.

The National Investment in Higher Education: 1981

Purpose

This is the first in a series of annual statements to those of you who make public policies or private decisions affecting higher education, who support the nation's colleges and universities with taxes, who budget and appropriate public funds, who contribute private dollars, and who pay tuition. Its purpose is to provide an accounting of what has been accomplished with the resources provided us, and some fresh perspectives for your consideration in the years ahead.

Higher education is one of America's greatest national resources. It educates our citizens, enriches our communities, conducts much of our important research and contributes countless other benefits. Fulfillment of its mission is indispensable to America's well-being and justifies a major national investment.

The member organizations of the Association Council for Policy Analysis and Research share a responsibility to show how public and private dollars are being used—to review in brief higher education's accomplishments as well as its unfinished business. As a candid assessment of the current environment within which public and independent colleges and universities strive to meet public expectations and their own aspirations, this first report summarizes key trends through the 1970s. It reports on progress to broaden access to higher education, to preserve quality programs and services, and to maintain fiscal health. It reviews the current condition of higher education in terms of its human, physical and financial resources.

Increasing student access has been a primary national policy goal for more than a decade. America's colleges and universities have supported this goal and applied it in their own academic, admissions, and student aid practices.

While striving to meet the needs of all students without sacrificing quality, higher education institutions have confronted increasingly burdensome inflationary cost pressures. Despite greater sophistication in fiscal management, many institutions face potentially serious depletion of their capital base.

Persistence of this trend spells further erosion of faculty salaries and professional growth opportunities, further obsolescence of academic facilities and equipment, and further losses in the relative value of endowment funds.

These developments, in turn, inevitably threaten the maintenance of academic quality and thus bear serious implications for the millions of Americans who may enroll in higher education institutions during the 1980s and beyond.

With facts from many current sources of information, we present—in our judgment—a timely and balanced portrait of American higher education. Our purpose is to help those of us in education, and you in government and in the private sector who hold higher education in trust for generations of students yet to come, to make informed public policies and private choices. The decisions we make together will determine the future of higher education.

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"Though overall voluntary support has increased substantially, it has failed to keep pace with expanded enrollments and inflation driven cost increases."

"As they strive to fulfill these missions in the face of soaring costs, however, higher education institutions have begun to experience a depletion of their human, physical, and financial resources."

Voluntary Support: Individuals, Foundations, Corporations, Religious Denominations

Voluntary support for current operations and capital purposes has increased over the decade of the 1970s, reaching a level of $3.3 billion in 1979.

Nearly half of this support is provided by alumni and other individuals. About $700 million is provided by the private foundations, although there are strong indications that this level of support may not continue. The fastest growing sources of voluntary support are the business corporations, which over the decade of the 1970's increased their support to over $556 million. Many religious denominations have been vital sources of support for their affiliated institutions, contributing in 1978-79 a total of $161 million.

Though overall voluntary support has increased substantially, it has failed to keep pace with expanded enrollments and inflation driven cost increases. Consequently, it is not financing any greater proportion of total operating budgets and continues to supply 11 percent in the private sector and two percent in the public sector.

Conclusion: Erosion of The Capital Base

On balance, we believe the nation's colleges and universities have made remarkable progress in fulfilling the goal of broadened access to higher education for all. Through improved fiscal management, they have progressed without diluting the quality of these opportunities, and while continuing to carry out their other vital missions of research and community service.

As they strive to fulfill these missions in the face of soaring costs, however, higher education institutions have begun to experience a depletion of their human, physical, and financial resources. We are concerned, for example, that chronic erosion in the buying power of faculty salaries may soon inhibit the ability of colleges and universities to attract and retain first-class people for teaching and research. We see a growing need for capital to renovate, rehabilitate, and make energy-efficient the aging physical facilities of our campuses—capital that, unlike the case of private industry, cannot be provided through current tax incentives. We note that the market value of college and university endowments is failing to keep pace with inflation. Moreover, fewer institutions are finding it possible to maintain adequate financial reserves.

These disturbing trends demand serious and searching scrutiny by everyone concerned with the future of our national investment in higher education. To the extent that these trends continue unchecked, our colleges and universities will find it increasingly difficult—in some cases impossible—to maintain current levels of performance.

While maintaining the national commitment to opening the portals of higher education for all, we invite others to join us in focusing new attention on what is happening inside the gates. Tomorrow's students have a vital stake in our decisions. We all do.

The Associational Council for Policy Analysis and Research (ACPAR), currently comprising 23 Washington-based higher education associations serving the public and independent sectors, is primarily concerned with the advancement of quality research and analysis on major public policy issues affecting higher education.

ACPAR's purpose is threefold: to provide a forum for identifying major policy issues for research analysis; to encourage coordination of research and analysis activities of the Washington-based education associations, including cooperative projects; and to advise the American Council on Education's Division of Policy Analysis and Research concerning research priorities and strategies.

The members of the Association Council for Policy Analysis in Research gratefully acknowledge the able contribution of the task force which developed this statement:

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Frances, Carol. *The Short-Run Economic Outlook for Higher Education*, Washington, D.C., American Council on Education, 1980.

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